



State of California
Employment Training Panel

Arnold Schwarzenegger, Governor

May 27, 2009

Kimberly Offord
Sacramento Training Supervisor
Progressive Casualty Insurance Company
10929 Disk Drive
Rancho Cordova, CA, 95670

Dear Ms. Offord:

Enclosed is our final audit report relative to the Employment Training Panel Agreement No. ET05-0140 for the period July 5, 2004 through July 4, 2006.

Also enclosed is a demand letter for payment of costs disallowed in the audit report. Payment is due upon receipt of this letter. If you wish to appeal the audit findings, you must follow the procedure specified in Attachment A to the audit report.

We appreciate the courtesy and cooperation extended to our auditor during the audit. If you have any questions, please contact Stephen Runkle, Audit Manager, at (916) 327-4758.

Sincerely,

Original signed by:

Stephen Runkle
Audit Manager

Enclosures

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PROGRESSIVE CASUALTY INSURANCE COMPANY

Agreement No. ET05-0140

Final Audit Report

For The Period

July 5, 2004 through July 4, 2006

Report Published May 27, 2009

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ET05-0140.fnl

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AUDITOR'S REPORT

Summary

We performed an audit of Progressive Casualty Insurance Company's compliance with Agreement No. ET05-0140, for the period July 5, 2004 through July 4, 2006. Our audit pertained to training costs claimed by the Contractor under this Agreement. Our audit was performed during the period May 19, 2008 through May 23, 2008.

The Employment Training Panel (ETP) reimbursed the Contractor a total of \$333,554.73. Our audit supported \$332,121.73 is allowable. The balance of \$1,433 is disallowed and must be returned to ETP. The disallowed costs resulted from 3 trainees who had unsupported training hours, and 1 trainee who did not meet the full-time employment requirement.

AUDITOR'S REPORT (continued)

Background

Progressive Casualty Insurance Company (Progressive) is a subsidiary of Progressive Insurance Company, which was founded in 1965. Progressive sells vehicle and watercraft insurance in 48 states, excluding Massachusetts and New Jersey. Its location in Rancho Cordova operates as a full account-management facility.

This Agreement was the first one between Progressive and ETP. The company was seeking to implement a new customer service process that identifies effective responses to an inquiry and/or a claim, increases an employee's knowledge base of different policies offered, and emphasizes the use of courteous customer service practices. Over 750 frontline workers were to receive training that would increase efficiency, improve customer service, and enable them to learn a new billing system. Therefore, the Agreement provided for training in business skills, commercial skills, computer skills, continuous improvement, and management skills training for 42 managers.

This Agreement allowed Progressive to receive a maximum reimbursement of \$696,800 for retraining 397 employees. During the Agreement term, the Contractor placed 397 trainees and was reimbursed \$333,554.73 by ETP.

Objectives, Scope, and Methodology

We performed our audit in accordance with *Government Auditing Standards*, promulgated by the United States General Accounting Office. We did not audit the financial statements of Progressive Casualty Insurance Company. Our audit scope was limited to planning and performing audit procedures to obtain reasonable assurance that Progressive Casualty Insurance Company complied with the terms of the Agreement and the applicable provisions of the California Unemployment Insurance Code.

Accordingly, we reviewed, tested, and analyzed the Contractor's documentation supporting training cost reimbursements. Our audit scope included, but was not limited to, conducting compliance tests to determine whether:

- Trainees were eligible to receive ETP training.
- Training documentation supports that trainees received the training hours reimbursed by ETP and met the minimum training hours identified in the Agreement.
- Trainees were employed continuously full-time for 90 consecutive days after completing training, and the 90-day retention period was completed within the Agreement term.

AUDITOR'S REPORT (continued)

- Trainees were employed in the occupation for which they were trained and earned the minimum wage required at the end of the 90-day retention period.
- The Contractor's cash receipts agree with ETP cash disbursement records.

As part of our audit, we reviewed and obtained an understanding of the Contractor's management controls as required by *Government Auditing Standards*. The purpose of our review was to determine the nature, timing, and extent of our audit tests of training costs claimed. Our review was limited to the Contractor's procedures for documenting training hours provided and ensuring compliance with all Agreement terms, because it would have been inefficient to evaluate the effectiveness of management controls as a whole.

Conclusion	As summarized in Schedule 1, the Summary of Audit Results, and discussed more fully in the Findings and Recommendations Section of our report, our audit supported \$332,121.73 of the \$333,554.73 paid to the Contractor under this Agreement is allowable. The balance of \$1,433 is disallowed and must be returned to ETP.
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Views of Responsible Officials	The audit findings were discussed with Kimberly Offord, Sacramento Training Supervisor, at an exit conference held on May 23, 2008 and by telephone on May 26, 2009. Ms. Offord agreed to bypass issuance of the draft report and proceed to the final review report.
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The issuance of your final audit report has been delayed by the audit unit. Therefore, ETP waived the accrual of interest for the disallowed costs beginning May 24, 2008, through the issue date of this final audit report. The interest waiver (adjustment) was \$105.66, which was deducted from the total accrued interest.

Audit Appeal Rights	If you wish to appeal the audit findings, it must be filed in writing with the Panel's Executive Director within 30 days of receipt of this audit report. The proper appeal procedure is specified in Title 22, California Code of Regulations, Section 4450 (attached).
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AUDITOR'S REPORT (continued)

Records

Please note the ETP Agreement, Paragraph 5, requires you to assure ETP or its representative has the right, "...to examine, reproduce, monitor and audit accounting source payroll documents, and all other records, books, papers, documents or other evidence directly related to the performance of this Agreement by the Contractor... This right will terminate no sooner than four (4) years from the date of termination of the Agreement or three (3) years from the date of the last payment from ETP to the Contractor, or the date of resolution of appeals, audits, or litigation, whichever is later."

Stephen Runkle
Audit Manager

Fieldwork Completion Date: May 23, 2008

This report is a matter of public record and its distribution is not limited. The report is intended for use in conjunction with the administration of ETP Agreement No. ET05-0140 and should not be used for any other purpose.

SCHEDULE 1 – Summary of Audit Results

PROGRESSIVE CASUALTY INSURANCE COMPANY

AGREEMENT NO. ET05-0140

FOR THE PERIOD

JULY 5, 2004 THROUGH JULY 4, 2006

Training Costs Paid By ETP	<u>\$ 333,554.73</u>	
Disallowed Costs:		
Unsupported Training Hours	840.00	Finding No. 1
Full-Time Employment Requirement Not Met	593.00	Finding No. 2
Total Costs Disallowed	<u>1,433.00</u>	
Training Costs Allowed	<u><u>\$ 332,121.73</u></u>	

* See Findings and Recommendations Section.

FINDINGS AND RECOMMENDATIONS

FINDING NO. 1 – Training records maintained by Progressive Casualty Insurance Company (Progressive) did not support the reported training hours for three trainees. Therefore, we disallowed:
Unsupported
Training Hours

1) \$268 in training costs claimed for Trainee Nos. 1 and 2 (33.5 Computer Based Training (CBT) hours x \$8 per hour).

2) \$572 in training costs claimed for Trainee No. 4 (44 Class/Lab hours x \$13 per hour)

Title 22 California Code of Regulations (CCR), Section 4442(b) requires Contractors to maintain and make available records that clearly document all aspects of training. Classroom/laboratory training records must include the training date(s) and hours attended, training type, and the trainer and trainee's signatures.

Title 22 California Code of Regulations (CCR), Section 4442(c) requires Contractors to maintain CBT training records by job number that include dates, type of training and the course title, number of hours to complete course, percentage completed, trainee name, trainee signature, and the signature of an authorized employer representative verifying trainee competency attainment in the specified course.

Paragraph 2 (b) of the Agreement between ETP and Progressive states: "Reimbursement for class/lab training for trainees in Job 1 will be based on the total actual number of training hours completed by training delivery method for each trainee, up to the maximum specified in Chart 1, providing the minimum and no more than the maximum hours are met."

The Contractor reported that Trainee Nos. 1 and 2 each completed 21.28 CBT hours for combined total of 42.56 hours. For this Agreement, ETP allowed Progressive to support CBT hours by electronic report. However, a copy of that report provided to ETP auditor failed to include any record for 33.5 of the CBT hours reported to ETP for these trainees.

The Contractor reported that Trainee No. 4 completed 44 Class/Lab training hours on nine training dates between January 17 and June 14, 2005. However, Trainee No. 4 did not appear on any of the training rosters maintained by Progressive for those dates. Furthermore, Contractor representatives stated that Trainee No. 4 was employed by Progressive as a "scheduler" and would not have been included in the training sessions reported to ETP. Thus, no training records that supported the 44 class/lab hours reimbursed by ETP for Trainee No. 4 were found.

FINDINGS AND RECOMMENDATIONS (continued)

Recommendation Progressive must return \$840 to ETP. In the future, the Contractor should ensure that training records support hours submitted for reimbursement from ETP.

FINDINGS AND RECOMMENDATIONS (continued)

FINDING NO. 2 – Progressive's payroll records revealed Trainee No. 3 did not meet
Full-Time employment requirements upon completion of training.
Requirement Not Met Therefore, we disallowed \$593 in training costs claimed for this
Met trainee.

Exhibit A, Paragraph VII. A. of the Agreement between ETP and Progressive states, "Each trainee must be employed full-time, at least 35 hours per week, with the Contractor for a period of at least ninety (90) consecutive days immediately following the completion of training. The period shall be completed no later than the last day of this Agreement..."

Progressive reported that Trainee No. 3 completed a post-training retention period from March 30, 2006, through June 28, 2006, and earned a wage rate of \$15.30 per hour. Progressive payroll records show that Trainee No. 3 earned a wage rate of \$15.30 per hour and worked 25 hours per week during the retention period. As a result, Trainee No. 3 failed to work an average of at least 35 hours per week during the post-training retention period.

Recommendation Progressive must return \$593 to ETP. In the future, the Contractor should ensure trainees meet post-training retention requirements prior to claiming reimbursement from ETP.

ATTACHMENT A - Appeal Process

4450. Appeal Process.

- (a) An interested person may appeal any final adverse decision made on behalf of the Panel where said decision is communicated in writing. Appeals must be submitted in writing to the Executive Director at the Employment Training Panel in Sacramento.
- (b) There are two levels of appeal before the Panel. The first level must be exhausted before proceeding to the second.
 - (1) The first level of appeal is to the Executive Director, and must be submitted within 30 days of receipt of the final adverse decision. This appeal will not be accepted by the Executive Director unless it includes a statement setting forth the issues and facts in dispute. Any documents or other writings that support the appeal should be forwarded with this statement. The Executive Director will issue a written determination within 60 days of receiving said appeal.
 - (2) The second level of appeal is to the Panel, and must be submitted within 10 days of receipt of the Executive Director's determination. This appeal should include a statement setting forth the appellant's argument as to why that determination should be reversed by the Panel, and forwarding any supporting documents or other writings that were not provided at the first level of appeal to the Executive Director. If the Panel accepts the appeal and chooses to conduct a hearing, it may accept sworn witness testimony on the record.
 - (A) The Panel must take one of the following actions within 45 days of receipt of a second-level appeal:
 - (1) Refuse to hear the matter, giving the appellant written reasons for the denial; or
 - (2) Conduct a hearing on a regularly-scheduled meeting date; or
 - (3) Delegate the authority to conduct a hearing to a subcommittee of one or more Panel members, or to an Administrative Law Judge with the Office of Administrative Hearings.
 - (B) The Panel or its designee may take action to adopt any of the administrative adjudication provisions of the Administrative Procedures Act at Government Code Section 11370 *et seq.*, for the purpose of formulating and issuing its decision. Said action may take place at the hearing, or in preliminary proceedings.
 - (C) Upon completion of the hearing, the record will be closed and the Panel will issue a final ruling. The ruling may be based on a recommendation from the hearing designee. The ruling shall be issued in a writing served simultaneously on the appellant and ETP, within 60 days of the record closure.
- (c) The time limits specified above may be adjusted or extended by the Executive Director or the Panel Chairman for good cause, pertinent to the level of appeal.
- (d) Following receipt of the Panel's ruling, the appellant may petition for judicial review in Superior Court pursuant to Code of Civil Procedure Section 1094.5. This petition must be filed within 60 days from receipt of the Panel's ruling.

Authority: Section 10205(m), Unemployment Insurance Code; Section 11410.40, Government Code.

Reference: Sections 10205(k), 10207, Unemployment Insurance Code.

Effective: April 15, 1995

Amended: December 30, 2006